

**MINUTES OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON
January 17, 2003
8:30 a.m., MST**

The Arizona State Retirement System (ASRS) Board met in the 10th Floor Board Room, 3300 N. Central Avenue, Phoenix, Arizona. Mr. Alan Maguire, Chairman, Arizona State Retirement System Board, called the meeting to order at 8:34 a.m., MST.

The meeting was teleconferenced to the ASRS office at 7660 East Broadway Boulevard, Suite 108, Tucson, Arizona 85710.

1. Call to Order; Roll Call

Present: Mr. Alan Maguire, Chairman
Ms. Bonnie Gonzalez, Vice Chairman
Ms. Charlotte Borchert
Mr. Jim Bruner
Dr. Chuck Essigs
Mr. Norman Miller
Mr. Karl Polen (via telephone)
Mr. Ray Rottas
Mr. N. Carl Tenney

A quorum was present for the purpose of conducting business.

2. Presentation, Discussion, and Appropriate Action with Respect to the Chairman's Welcoming of the New Director

Mr. Alan Maguire, Chairman, gave a brief background regarding the search process for the position of director. The Board sitting as the Selection Committee, with assistance of Maximus, Inc. and ADOA Human Resources, undertook a nationwide search that lasted several months. Over 125 resumes from 39 states were received and reviewed. The Committee initially evaluated the applicants; narrowed the screening to a preliminary list of potential candidates; conducted further inquiries in that group of applicants; and identified a group of finalists, who were then interviewed. Mr. Paul Matson was the choice of all members of the ASRS Board who participated in the process, and Mr. Matson has accepted the offer to serve as the Director of the ASRS.

Mr. Matson has an MBA from Simon Fraser University, Burnaby, British Columbia, along with a bachelor's degree, in accounting from the University of Alberta. Mr. Matson has served as the Chief Investment Officer for the ASRS since 1995. While in this position, Mr. Matson has

effectively and efficiently developed the Investment Management Division. He has instituted best practices techniques and methods throughout this process.

Mr. Matson has established and maintained an excellent working relationship with all Board members. He has repeatedly demonstrated his capability of explaining complex investment policy issues to the Board and the Investment Review Committee.

In addition, Mr. Matson has often been involved in challenging issues facing the ASRS in areas outside the realm of investments, which is a reflection on both his intellectual and managerial skills, and also his capacity to communicate and accomplish the tasks before him. Mr. Matson now has the opportunity to bring his energy, enthusiasm and leadership to the entire agency.

3. Presentation, Discussion, and Appropriate Action with Respect to Comments from the New Director

Mr. Paul Matson, Director, stated he is looking forward to working with all Board members and it is his privilege to be working with the members. Currently, Mr. Matson is meeting with each Board member and with each ASRS senior staff member. He will identify key focus areas, prioritize those areas, and prepare to give a presentation to the Board in February 2003 on how he plans to move towards accomplishing identified objectives.

4. Approval of Minutes of the December 20, 2002, Regular Meeting, the December 24, 2002, Special Meeting and the Executive Session of the December 24, 2002, Special Meeting of the ASRS Board.

Motion: Ms. Bonnie Gonzalez moved to approve the minutes of the December 20, 2002, regular meeting, the minutes of the December 24, 2002, special meeting, and the minutes of the executive session of the December 24, 2002, special meeting of the ASRS Board.

Mr. Jim Bruner seconded the motion.

By a vote of 9 in favor, 0 opposed, and 0 abstentions the motion was approved.

5. Approval of the Consent Agenda

Motion: Ms. Gonzalez moved to approve retirements, refunds, death benefits, and system transfers of the Arizona State Retirement System.

Mr. Ray Rottas seconded the motion.

By a vote of 9 in favor, 0 opposed, and 0 abstentions the motion was approved.

6. Presentation, Discussion and Appropriate Action with Respect to the Assistant Director of the Member Services Division of the Arizona State Retirement System

Motion: Ms. Gonzalez moved to approve the appointment of Ms. Terry Cusker to the position of Assistant Director of the Member Services Division of the Arizona State Retirement System.

Mr. Jim Bruner seconded the motion.

Mr. Matson stated that the ASRS is very fortunate to obtain Ms. Cusker as the successful candidate for the position of Assistant Director in the Member Services Division. Ms. Cusker possesses a varied background which includes finance, human resources, and information technology. Mr. Matson added that he is looking forward to working with Ms. Cusker and believes she will be a wonderful asset to the Member Services team.

By a vote of 9 in favor, 0 opposed, and 0 abstentions the motion was approved.

7. Presentation, Discussion, and Appropriate Action with Respect to the Position of Assistant Director of the Financial Services Division of the Arizona State Retirement System

Motion: Mr. Carl Tenney moved to approve the appointment of Nancy Linssen to the position of Assistant Director of the Financial Services Division of the Arizona State Retirement System.

Ms. Gonzalez seconded the motion.

Mr. Matson stated that Ms. Linssen has experience in managing projects. She has an accounting and finance background and also the ability to get disparate groups to work together. Mr. Matson looks forward to working with Ms. Linssen.

By a vote of 9 in favor, 0 opposed, and 0 abstentions the motion was approved.

8. Presentation, Discussion, and Appropriate Action Regarding the Chief Investment Officer Position of the Arizona State Retirement System

Mr. Karl Polen, Chairman, Investment Review Committee (IRC), stated the IRC decided to recommend appointment of Mr. Gary Dokes as the Acting Chief Investment Officer (CIO), to the full Board, during their meeting on January 4, 2003. He added that Mr. Dokes began his career with the ASRS in 1997 as the Fixed Income Portfolio Manager and was appointed as the Assistant CIO approximately one year ago. Mr. Dokes is highly qualified for this position and will likely be a leading candidate when the search process for a permanent CIO is under way. The IRC believes that it is in the best interest of the ASRS to allow Mr. Matson appropriate time in his position as Director before commencing a search for a permanent CIO.

Motion: Mr. Polen moved to approve the appointment of Mr. Gary Dokes as Acting Chief Investment Officer of the Arizona State Retirement System.

Mr. Bruner seconded the motion.

Substitute Motion: Ms. Bonnie Gonzalez moved to approve the appointment of Mr. Gary Dokes to the position of Acting Chief Investment Officer, with the Director to make a recommendation to the Investment Review Committee and to the Board, on a permanent Chief Investment Officer during calendar year 2003.

Mr. Ray Rottas seconded the motion.

Mr. Dokes commented that he is looking forward to working with everyone on investment-related issues.

By a vote of 9 in favor, 0 opposed, and 0 abstentions the motion was approved.

9. Presentation, Discussion, and Appropriate Action Regarding Renewal of the Benefit Consultant Contracts

Motion: Dr. Chuck Essigs, Chairman, Health Insurance Review Committee, moved to approve the contract extensions for the second year of their five year contracts for the following benefits consultants through January 22, 2004:

- Actuarial Business Solutions
- Buck Consultants
- Cook Financial Services
- William Mercer
- The Segal Company
- Watson Wyatt Company

Ms. Gonzalez seconded the motion.

By a vote of 9 in favor, 0 opposed, and 0 abstentions the motion was approved.

10. Director's Report

Mr. Matson highlighted some issues, including the Supplemental Retirement Savings Plan (SRSP). He added that the ASRS currently has a Private Letter Ruling request that has been submitted to the Internal Revenue Service. He added that it is likely the IRS will respond with a rejection and provide the ASRS with a series of commentaries that should guide the ASRS in how state statutes can be modified to allow for the implementation of the program.

Further, Mr. Matson pointed out that per the Investment section of the report, an Asset Allocation review is currently in progress. The purpose of this review is to ensure that the ASRS maintains a total fund allocation of assets and determine what aggregation of current asset classes is prudent.

Motion: Mr. Jim Bruner moved to accept the Director's report.

Mr. Rottas seconded the motion.

By a vote of 9 in favor, 0 opposed, and 0 abstentions the motion was approved.

11. Presentation, Discussion, and Appropriate Action Regarding the Internal Operations Quarterly Report

Mr. Anthony Guarino, Deputy Director, Chief Operations Officer, submitted a report that covered the business technology and business continuation plan for the ASRS. The plan was developed mid-year 2000, partially implemented in the first quarter of 2001, and fully funded in July 2001. The scheduled conclusion of this project is January 2006. The plan's main goal is to identify and institute best business practices throughout the ASRS. The ASRS' expectation is to be recognized as the top-performer in public retirement plan administration.

Some of the service improvements expected as a result of this plan are the following:

- Consolidate all ASRS services to operate from a single database
- Create a near paperless office
- Automate the delivery of services
- Create a platform by which electronic data transfers can be sent from employers to update ASRS records automatically
- Create a platform by which members can access their account information over the internet and request changes when necessary
- Give members the opportunity to speak directly with a benefit advisor over the internet
- Connect our telephone system with our computer system, resulting in faster service to members
- Utilize videoconferencing to transmit seminars, workshops, and group meetings over the internet which members can view anytime or anyplace
- Post pre-recorded seminars, workshops, and group meetings over the internet which members can view anytime or anyplace
- Give the members the opportunity to enroll in a person-to-person seminar, workshop, or group meeting automatically over the internet
- Give members the opportunity to request or receive service over the internet

Mr. Guarino had planned to present a status update on the fiscal year 04/05 budget request, but the budget information was not received by staff until just prior to the Board meeting. He asked Ms. Martha Rozen, Chief of Administrative Services, to give a brief overview. Ms. Rozen stated that there were positions that were requested but not all of these requests have been approved. Upon a further in depth review of what has been presented by the Governor's office, Ms. Rozen will have a better idea of what has been approved and what has not been approved. Mr. Maguire asked that Ms. Rozen prepare an overview for the Budget and Audit Committee.

Mr. Maguire took time during the meeting to recognize Mr. LeRoy Gilbertson, who retired as the ASRS Director, on January 3, 2003.

Mr. Jim Bruner commented that he is very happy for Mr. Gilbertson. However, he is sorry that the ASRS will be losing Mr. Gilbertson's experience and leadership. Since Mr. Gilbertson became the Director in 1994, the ASRS' membership has grown from 175,000 to over 300,000.

Mr. Gilbertson was responsible for implementing a securities lending program that earned the ASRS in excess of \$35 million and a commission recapture program was implemented that has generated over \$7 million over the last eight years. These are just a few of a very long list of accomplishments achieved during Mr. Gilbertson's tenure.

On behalf of the ASRS Board and the ASRS employees, a plaque was presented to Mr. Gilbertson in appreciation of his service to the members and the retirees of the ASRS.

Mr. Gilbertson stated that he appreciated Mr. Bruner's comments but added these accomplishments were made because of the excellent staff at the ASRS. He believes that the Board made an excellent choice in selecting Mr. Matson as the new Director. He wishes Mr. Matson and the Board continued success.

12. Presentation, Discussion, and Appropriate Action Regarding an Update from External Affairs and the Policy and Procedure Committee

Mr. Richard Stephenson, Deputy Director, External Affairs, explained that he and Mr. Ray Rottas, Chairman, External Affairs Committee, met with the chairmen of the House and Senate committees. He deemed these meetings as very productive. The chairmen of the House and Senate committees requested that any ASRS bills that come before House and Senate committees include cost estimates, fiscal notes, and other relevant information.

Out of the five Board authorized bills that have been introduced, two of the bills have already moved out of the primary committee and were heard by the House Appropriations Committee.

Mr. Stephenson stated that the ASRS is receiving numerous requests for cost estimates or other information from legislators or staff. It has been difficult to keep up with the number of requests. One of these requests included review of legislation over the past four years pertaining to recalculation of cost estimates to reflect costs as of today. The ASRS actuary, Charles Chittenden, Buck Consultants, has informed the ASRS staff that it will cost an estimated \$100,000 to perform these calculations. Mr. Stephenson requested guidance from the Board. Mr. Maguire stated that he believes that this request can be accomplished without performing such a calculation. A number of analyses have been completed to determine the cost of past bills. Members of the Board agreed to respond to this request without assuming the costs of an actuarial calculation.

Mr. Rottas presented a form document entitled "A-Bill" that will require specific information to be included when a bill is submitted for review. Questions such as the purpose, the cost, and the

benefits of the bill need to be answered. The legislature will receive all necessary information to enable an informed decision to be made.

Motion: Mr. Rottas moved that the Board approve this requirement to use the A-Bill form when submitting a bill for review.

Ms. Gonzalez seconded the motion.

Mr. Miller suggested that the issue of who may be negatively impacted be added to this form document.

Motion: Mr. Rottas amended his motion to include Mr. Miller's suggestion.

Ms. Gonzalez seconded the motion.

By a vote of 9 in favor, 0 opposed, and 0 abstentions the motion was approved.

13. Presentation, Discussion, and Appropriate Action Regarding the Schedule for Meetings of the ASRS Board for the Calendar Year 2003

Mr. Maguire asked members of the Board to note that CB Richard Ellis will be added to the 2003 Board meeting schedule. This vendor will report along with a set of investment managers during a future meeting.

Motion: Ms. Gonzalez moved to approve the calendar year 2003 Board meeting schedule.

Ms. Charlotte Borchert seconded the motion.

By a vote of 9 in favor, 0 opposed, and 0 abstentions the motion was approved.

14. Board Requests for Agenda Items

None.

15. Call to the Public

Mr. Robert Letson stated he was encouraged to hear the comments pertaining to the legislative activities. He added that he requested that a bill passed about two years ago, pertaining to member contributions, be vetoed by the Governor. However, the Governor did not veto this bill. Mr. Letson believes that the ASRS would not have the "problems" that now exist had the Governor vetoed the bill.

Mr. Letson asked how many ASRS members, other than staff members or members of the Board, attended the meetings of the External Affairs Committee. He believes that there is not effective communication between the ASRS and members.

Mr. Bill Peltier, Legislative Chair, Pima County Retired Teachers Association, stated he was unable to obtain a newsletter from the Tucson office. Additionally, Mr. Peltier thanked the Board for providing access to the Board meetings via teleconference.

Mr. Tom Vincent inquired as to the process of receiving a 13th check. Mr. Vincent learned that since he did not receive a 13th check last year, he would not receive a check this year. Mr. Vincent would like to know why he is not entitled to this check.

16. The next ASRS Board meeting is scheduled for Friday, February 21, 2003, at 8:30 a.m. in the 10th floor Board Room of the ASRS Phoenix Office, 3300 North Central Avenue, Phoenix, Arizona 85012.

17. Adjournment of the ASRS Board.

Mr. Alan Maguire, Chairman, adjourned the January 17, 2003, meeting of the ASRS Board at 10:39 a.m.

ARIZONA STATE RETIREMENT SYSTEM

Marina Chaves, Secretary Date

Paul Matson, Director Date